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The Effect of International Financial Reporting Standars on the Real Earnings Management and Internal Control Structure as a Moderating Variable

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ABSTRACT

Earnings management has become a widely known phenomenon towards managing reported earning in order to fulfill targets. Scott (1997) defines earnings management as a management choice upon accounting policy, or a real activity that affects earnings as such that multiple objectives of the specific earnings reporting can be obtained. The perspective of financial statement contends that a manager uses earnings management to match financial analyst's forecast with the objective of avoiding perception and negative reaction, which in turn brings impact on stock price. This study aimed to examine the effect of International Financial Reporting Standards (IFRS)-based accounting standard on the real earnings management (REM) moderated by internal control structure. Samples for the study were manufacture companies listed in the Indonesian Stock Exchange 2010-2014. The study found that adoption of the IFRS-based accounting standard had a positive effect on the REM and good corporate governance proxied by internal control structure weaken the positive effect of the IFRS-based accounting standard adoption on the REM.

Keywords: Real Earnings Management, International Financial Reporting Standards, Good Corporate Governance, Internal Control Structure
JEL Classifications: F38, M4

1. INTRODUCTION

Earnings management has become a widely known phenomenon towards managing reported earning (increasing or decreasing) in order to obtain vary targets. Scott (1997) defines earnings management as a management choice upon accounting policy, or a real activity that affects earnings as such that multiple objectives of the specific earnings reporting can be obtained. Healy (1985), on the other hand, proposes a broader definition as follow: "Earnings management is an effort of a manager to use policy in financial statement and to perform a transaction structuring to develop an alternative financial statement, which distracts some stakeholders against firm's economic performance, or influences contractual outcome depending on the reported accounting figures." Furthermore, Schipper (1989) defines that "earnings management is an intended intervention in the financial statement process for external parties, aiming to take individual benefits (facilitated by a neutral operation process)." In short, earnings management is an activity performed by the management in reporting unreal earnings by imposing vary policies on accounting, financial statement, as well as real transaction structuring, in order to get a better response from the stakeholders and to fulfill their needs.

The current categorization of the earnings management activity consists of real earnings management (REM) and accrual earnings management. The management decision to choose either real or accrual earnings management activities depend on several factors. This study focused on the REM. Roychowdhury (2006) defines REM as a manipulation activity performed by management through a firm's normal operation activity to distract stakeholders against financial statement presented by the management. REM occurs all fiscal year long and has consequences on current and future cashflows.

Previous studies have discussed the REM were Roychowdhury (2006), have found that the manager manipulated (increasing) earnings using the REM to avoid annual loss report. Gunny (2010) found that the REM helped the managers to get benefits that affected the future performance (performance improved) and that REM might result in a positive sign concerning the future corporate value. Zhang (2006) found that the REM activity increases as the manager deals with the analysts' cashflow forecast.

Scott (1997) explains motivation of earnings management using two different perspectives of earnings management: Financial statement and contract perspectives. The financial statement perspective describe that the manager uses earnings management to match the financial analysts' forecast with the objective of avoiding perception and negative reaction that affects the stock price. The manager decides to write off or to apply a "smooth" process towards earnings growth over time. Such method implies that the managers are certain that the not all markets are efficient. With such interpretation, earnings management has becomes an interesting, and probably surprising. It is considered to be a useful effort from the financial reporting perspective. According to contract perspective Scott (1997), earnings management can be used for protecting corporate from the consequence of unpredictable incidence should the contract is not detailed and incomplete. Managerial compensation based contract allows earnings management and is deemed more effective by the corporate that performs it than those who do not. Furthermore, Scott (1997) also reveals that earnings management can also have negative impacts. From the contract perspective, earnings management occurs because of optimistic behavior of the managers, as found by Healy (1985), where the management tends to use earnings management to maximize its bonuses. Dechow et al. (1995) also proves in their study on earnings management practice by 92 US firms who have violated the generally accepted accounting principles (GAAP). They found that the tendency of performing the earnings management was due to debt convenance.

One of management responsible to the shareholders is to develop annual financial statement. In its development, the management must obey regulation dealing with financial reporting. Financial reporting regulation is necessary to ask for management responsibilities to the employers and to treat the shareholders well and transparently. A good presentation of the financial stement must follow the reporting standard from professional organization, the Indonesian Accounting Union (IAI). In its development, the IAI standard changes with business process and globalization demand. The current financial reporting standard for Indonesia has been in effect since 2012 and the adoption process in the country is known as International Financial Reporting Standards (IFRS) convergence.

The IFRS accounting standard is principle based. The standard allows the management in performing judgement upon varied accounting policies with the purpose to provide valuable information to all financial statement users. Furthermore, fair value, which is often absent in the market, is used for measuring the accounts. In order to determine fair value, appraisal experts are necessary to make a consideration. Therefore, to produce a high quality financial statement, an organization must have a system that guarantee the management to make a judgement as such that it will not distract and give benefit to the management itself.

Some previous studies on the effect of IFRS-based accounting standard adoption on earnings management have provided different results (Tendeloo and Vanstraelen, 2005; Mergenthaler, 2008; Cahyati, 2011; Widyawati and Anggraita, 2003; Qomariah, 2013). These studies reported that the IFRS-based financial accounting standard had a negative effect on the earnings management. Tendeloo and Vanstraelen (2005) and Xu (2014), however, found that at the initial stage of the IFRS-based accounting standard adoption, a positive effect occurred on the level of the earnings management performed by the organization. Whereas Widyawati and Viska (2013), and Handayani (2010) found no effect of the IFRS-based accounting standard adoption on the earnings management.

The above studies with their varied results had motivated a further study on other factors, which were believed to strengthen the effect of the IFRS-based accounting standard adoption on the earnings management. The authors assumed that corporate governance performed by the organization was capable of moderating the effect of the adoption of the IFRS-based accounting standard on the earnings management. Internal control structure is part of the corporate governance, which plays an important role to moderate the effect of the IFRS-based accounting standard adoption on the earnings management.

Internal control structure according to the Public Accountant Professional Standard (2012) consists of management control and control culture, which illustrate control environment, risk comprehension, control activity and function separation, information and communication, and monitoring activity and correction or deficiency. A good internal control structure under the required regulation and standard is subject to improvement over time. Such explanation brought about the following research questions: (1) Whether IFRS-based accounting standard adoption positively affected REM; and (2) whether internal control structure as a proxy for corporate governance might weaken the positive effect of the IFRS-based accounting standard adoption on the REM.

2. LITERATURE REVIEW

2.1. Agency Theory

Agency issues take the shape of conflict of interest between shareholders and managers in an organization. The conflict occurs because of separation between owners and management. Managers are expected to take measures that guarantee the best fulfillment of the shareholders' interest. Waworunto et al. (2014) explains that agency issues occur due to self-interest of the management in order to secure their position and to maximize their compensation from the organization. The management will always fight for self-interest because of information asymmetry, in which the managers know more information about the organization than the shareholders do. Such difference is abused by the management to fulfill its own interest.

Agency theory places an organization as a contract translator for any participants who perform mutual transaction (Jensen and Mekling, 1976). If assets become the courtesy of the shareholders, then principal agent issue occurs because the manager productively manages such assets. Commissioner council becomes an effective tool for monitoring the management and reducing agency cost (Fama and Jensen, 1983). The main contribution of the independent commissioner council according to the agency theory deals with capability to independently monitor the organization's operational problems, secure organization's assets, and maintain the management accountability with varied techniques,which are expected to assure the stakeholders that the organization is sustainable (Gabrielsson et al., 2007).

Effect of the agency issues may result as far as economic damages, from organization's failure due to global economic crisis to fraud of organization's property for self-interest of the managers to fraudulent financial statement to other unintended incidents. There must be a mechanism to monitor the managers so that they perform as the stakeholders wish by showing ethical manner, keeping investors and providing transparent information for the company outsiders. Such monitoring mechanism is often refered as corporate governance and becomes a tool for reducing the agency cost.

Scott (1997) explains that several concerned parties in a business transaction possess more information than the other. Such condition results in information asymmetry. The information asymmetry is unfair distribution information between the agency and the principal, in which the business process of the agency cannot be enjoyed immediately by the principal. Once it happens, the agent may perform dysfunctional behavior. One of the dysfunctional behaviors of the agent is to manage data of the financial statement in such manner that it complies with the principal's wish despite the data do not prove the true condition of the organization. One of data manipulation acts in the financial statement is earnings management practice. Earnings management is a process done by the managers under the principles of general perceived accounting and it directs towards a particular level preferred upon the reported earnings (Assih and Gudono, 2000). Earnings management may occur when the management more likely uses judgement in developing the financial statement and in selecting transactions that may change the financial statement (Healy and Wahlen, 1998). Healy and Palepu (1993) write that stockholders will benefit if the earnings management is used for giving signs of private information possessed by the managers and for reducing politica cost (Watt and Zimmerman, 1986). However, the stockholders can experience loss if the earnings management is used for producing benefits to the managers, such as increasing compensation (Healy, 1985).

2.2. Objectives of Conceptual Framework of IFRS

The IFRS conceptual framework has the following objectives: (1) Helping the International Accounting Standards Board (IASB) develop the future IFRS and review the ongoing IFRS; (2) helping the IASB improve regulation harmony, accounting standard, and procedure dealing with the financial statement presentation as a basis for reducing alternatives of the accounting treatments allowed by the IFRS; (3) helping develop national financial standard; (4) helping develop financial statement in applying the IFRS and standards related to topics not included in the IFRS; (5) helping auditors formulate opinions about the compliance of the financial statement with the standard; (6) helping financial statement users interpret the information contents in the financial statement as to whether they comply with the IFRS; and (7) providing information concerning approach to formulating the IFRS to individuals interested in the IFRS work.

IASB believes that the long list of probability of the conceptual framework use cannot help develop the conception framework revision. The IASB also believes in revising the conceptual framework and aims to revise the conceptual framework by considering other parties concerned with the IASB.

The IFRS conceptual framework tends to direct towards fulfilling the objectives of the financial statement for the interest of the users and consider the users as shareholders of the organization. On the other hand, the US GAAP, in addition to fulfilling the objectives of the users, provides illustration about the contents of the financial statement despite its reluctance to consider them as shareholders. Before IFRS, accounting used historical cost to measure its transaction. Historical cost is a sum of cash or its equal payable or other reward perceived value given to obtain assets during the perception or construction, or if there is any possibility to apply a sum that can be attributed directly to the assets at the first time it is eligible according to particular requirements in the other PSAK. The weakness of the historical cost is that it does not quite illustrate the real time condition (Cahyati, 2011). The IFRS standard tends to normal use of value, in particular investment property, some intangible assets, financial assets, and biological assets.

The benefit of normal value is that the asset and liability posts owned tend to indicate the real time condition at the financial statement date. However, argument arises concerning a disclaim towards the normal value use because it causes volatility within the financial statement and reduce earnings prediction. Nevertheless, if the normal value use causes high volatility, it actually only discloses the real time economic reality. Therefore, the shift of the historic cost to the normal value is expected to reduce the earnings management performed by the organization.

2.3. Internal Control System

Internal control system upon financial statement according to the SEC definition indicates that it is a process designed and supervised by the organization (the principle executive) and part of the financial reporting or function created by the organization to control the financial statement, and controlled by the commissioner council, management, and other personnel, to give adequate confidence related to the financial statement reliability and financial statement design for the interest of externalities under a principle of mutual perception and the following policy and procedures: (1) Keeping and maintaining records in detailed, accurate, and normal manner to indicate transactions and dispositions over the organization's assets; (2) giving adequate confidence that transactions have been recorded properly in preparing the financial statement according to mutual perception principle, and the organization's cost and benefit are made only according to the authorities of the management and directors; (3) giving adequate confidence related to timely prevention or detection of the benefit, use and disposition of the assets that do not comply with the authorities, having material effects on the financial statement.

The concept of the adequate confidence is that no system will be absolutely secured. The internal control system is run individually and the individuals possibly make mistakes. Therefore, the internal control towards the financial statement is deemed effective if it is preoccupied with the mechanism of the internal control within the organization, so that it can detect potential fraudulent financial statement. Mistakes or errors in financial statement, fraud, collusion or management override depend on the quality of the system created by the organization to secure the adequate confidence towards the financial statement.

2.4. REM

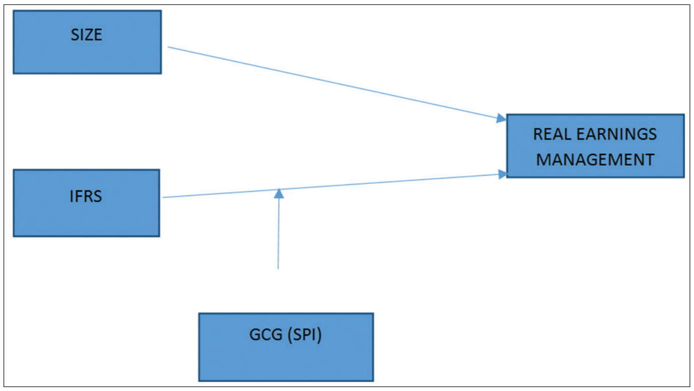
The managers prefer using REM to accrual earnings management in preparing the standard and regulation and to restrict the regulation Ewert and Alfred (2005), Graham et al. (2005). Cohen et al. (2008) found that the managers applied accrual accounting before Sarban-Oxley Act (SOX) 2002 and then switched to REM post-SOX. Cohen et al. (2008) also indicated that the managers shifted to the REM post-SOX due to accrual restriction. Graham et al. (2005) found evidence that executives preferred REM to accrual earnings management to avoid stricted auditors and regulators. Consistent with the findings from Graham et al. (2005), Chi et al. (2011) found that SEO firms audited by Public Accounting Office (KAP) sensitively used activity of earnings management to avoid monitoring towards the accrual earnings management.

Activity that can be performed from the REM is a discretionary cost manipulation (i.e., the unexpected reduction of research and development [R and D], selling, general and administrative, and advertising expenses). Buchee (1998) found that managers at the US companies cut off the R and D cost to increase annual earnings. Zarowin and Oswald (2005) and Osma (2008) found that research on UK listed companies indicated a manipulation of reported earnings by cutting off the R and D cost to obtain benchmark earnings. Cheng (2004) found a positive association between change in R and D spending and change in CEO annual compensation for companies with CEO dismissal approach and company reporting with minimum loss or decrease. In addition to the R and D manipulation, time for assets sale is also considered as the REM activity. In particular, the managers get benefit in the form of time flexibility in selling assets to improve the opportunity of reporting the earnings to get the desired thresholds and Bartov (1993) found that managers increased reporting earnings by using asset sale to smoothen the reported earnings and to avoid debt violation. Roychowdhury (2006) found that US companies simultaneously applied some REM activities to avoid annual report loss. The similar evidence was also found by Cohen and Paul (2010) and Chi et al. (2011) in which companies doing SEO possessed high level of REM all year long.

3. RESEARCH MODEL AND HYPOTHESES DEVELOPMENT

3.1. Research Model

The model is based on agency theory of earnings management from the perspective of financial statement. The adoption of the IFRS-based financial accounting standard is part of the financial statement perspective.



IFRS: International Financial Reporting Standards,
GCG: Good corporate governance,
SPI: Internal control system,
SIZE: Corporate size.

3.2. Hypotheses Development

3.2.1. Effect of IFRS standard adoption on earnings management

IFRS convergence has become indispensable need of all countries because global trade process has become borderless and timeless. This global trade process needs a universal standard applied to countries doing transaction so that it enables the logging process without conversion due to the difference in standard. The adoption of the financial reporting standard is a codification and regulation process as well as mutual agreement of regulatory institutions in order that the social information process runs properly either intra- or inter-organizationally.

In the process of adoption and financial reporting according to the financial accounting standard, management interest often dominates the principal interest. The agency theory exemplifies that conflict of interest always occur between the principal and the agent. Therefore, there must be a mechanism and tools that are capable of surpressing the conflict of interest. The management has opportunity to use any gap of the judgement in applying the financial reporting standard so that its earnings area obtained by exploiting policies in the financial reporting. Scott (1997) writes, from the financial reporting perspective, concept of manage of earning allows the manager to possess more detailed information about financial statement to fulfill their needs by using policies in the adoption of the accounting standard to perform earnings management. The IFRS focuses on the use of management judgement and transparent process provided that the management is more capable of disclosing the organization's policy to improve the positive value from the externalities.

Previous studies on the effect of the IFRS adoption on the earnings management resulted in difference conclusions. Mergenthaler (2008) found the sum of dollars of the earnings management was higher in rule-based standard/environment. Ahmed et al. (2010) found an increase in earnings management for mandatory adopters. Capkun et al. (2013) found that flexibility in IAS/IFRS standards caused higher earnings management. Widyawati and Angraita (2013) found IFRS convergence have a significant and negative impact on earnings management level. Different results were presented by Xu (2014). He found that: (a) IFRS adoption did not reduce earnings management level; (b) IFRS adoption in financial reporting was not significant to income increasing or income decreasing as tested separately. According to these brief explanations, this study proposed the following hypothesis:

H_1: IFRS adoption had a positive effect on REM.

3.2.2. Moderation of internal control system towards the effect of IFRS adoption on the REM

Meyer and Scott (1983) claims that organization is under pressure of varied social powers in order to complete and harmonize a structure. It has to compromise and maintain separate operational structure because organizational structure is not determined by job environmental situation, but, instead, by general situation of the society, where any kind of organization is determined by effectiveness and rationality towards society. Earnings management, which is assumed to be performed by the management, can be controlled if the system of the organizational management and its internal control structure run properly. Meyer and Rowan (1977) explains that categorical and procedural adjustments can be applied to the financial reporting standard adoption according to GAAP and IFRS. There is a mandatory, yet, a need for mutual norms as bases for inter-organizational co-operation. In addition, professional institutions are also necessary to monitor the fulfillment of such norms.

Agency theory in the context of management's discretion proposes that corporate governance mechanism in an organization may reduce earnings management caused by IFRS-based financial accounting standard adoption in two ways: (1) The effect on risk management process. An effective risk management provides better tools and data quality to consider the management's discretion; (2) the monitoring mechanism. High quality corporate governance has higher quality of monitoring so that the IFRS-based financial reporting process can restrict opportunistic behavior of the managers or the controlling shareholders as in the earnings management by preferred accounting method. Such arguments have some supports from Gunther and Novotny (2011) who concluded that broad corporate management moderated the effect of IFRS-based accounting standard adoption on earnings distribution practice. Based on the explantion above, we have following hypothesis:

H_2: Good corporate governance (GCG) proxied with internal control system weakened positive correlation between IFRS adoption and REM.

4. METHODS

4.1. Population and Samples

Population for the study was manufacture organizations listed in the Indonesian Stock Exchange 2010-2014. The samples were collected by a nonprobabilistic sampling in particular criteria, such as: (1) Manufacture organizations listed in the ISX for 10 years consecutively from 2005 to 2014; and (2) organizations publishing their complete financial statements. Table 1 contains number of observations for 5-year observation:

4.3. Data Analysis

4.3.1. Statistic desctiptive data

Total data used for analysis must fulfill requirement as normal and homogenous data, having no inter-data multicolinearity, and having no auto-correlation using 350. Table 3 contains descriptive statistic of 350 research data. According to Table 3, it can be explained that:

1. REM cashflow (REM_CFO) was a deviation of a normal business practice for earnings mitigation reported by cashflow reporting activity. REM_CFO had a minimum score of −2,781.302, meaning that the organization's management in the samples did a normal business deviation by reporting cashflow activity lower than practice with the lowest score of −2,781.302, whereas the highest REM_CFO score was 6,200.269.

   The REM_CFO had a mean of 189,331.7, meaning that the average ratio of the cashflow reported was higher than the normal business practice of the organizations in the samples (189,331.7).
2. The adoption of the IFRS by the organizations in the samples had minimum value of 0.22, therefore, the adoption by the samples was at least 22% of the total accounting standards issued by the IAI. The maximum value of the IFRS adoption was 65% and the mean value of the IFRS adoption was 49.88%. It meant that the average number of standards used in the financial reporting by the organizations in the samples was 49.88% of the total standards issued by the IAI.
3. GCG variable was masured with ICS indices, consisting of seven items of the ICS disclosure by the organization. According to Table 4, most of the samples (91, or 26% of the total samples) disclosed two CSI items. Most CSI 2-item disclosures dealt with "management responsibility for internal control structure" and "internal audit responsibility for auditing the adoption of the organization's internal control."

   The current study did not find any organization with a complete disclosure (seven points of internal control

Table 1: Observation data

Description	2010	2011	2012	2013	2014	Total
ISX-listed manufacture organizations	125	129	132	135	141	662
Sess than 5 year listing as of 2014	14	21	22	26	26	109
Total samples	111	109	110	108	115	553

Source: ISX data, 2014

Table 2: Research variables measurement

Variables	Measurement
REM	ABCFO measured with regression model as follow: $CFO_{it}/A_{it-1} = k_{1t}\ [1/A_{it-1}]+k_2\ [Sales_{it}/A_{it-1}]+k_3\ [\Delta\ Sales_{it}/A_{it-1}]+\varepsilon_i$ Abnormal production cost measured with regression as follow: $PROD_{it}/A_{it-1}=\alpha_0+\alpha_1\ [1/A_{it-1}]+\alpha_2\ [Sales_{it}/A_{it-1}]+\alpha_3\ [\Delta\ Sales_{it}/A_{it-1}]+\varepsilon_{it}$ Abnormal discretionary expenses measured with regression model as follow: $DISEXP_t/A_{it-1}=\alpha_0+\alpha_1\ [1/A_{it-1}]+\alpha_2\ [Sales_{it}/A_{it-1}]+\varepsilon_{it}$ ABCFO, abnormal discretionary expenses, abnormal production cost: Difference between actual and estimated values
IFRS-based standard adoption	IFRS-based accounting standard determined by the organizations number of accounting standards issue by professionals
Internal control structure	Items of SPI disclosure by organization: Objective=1: If there is objective/target statement of internal control system in annual report, and 0 if otherwise Responsibility=1: If there is management's responsibility statement for organizations'internal control, 0 if otherwise Effectiveness=1: If there statement on internal control effectiveness is available in organization's annual report, 0 if otherwise Special element=1: If control activity discloses special element, 0 if otherwise Limitation=1: If limitation of internal control system is discussed, 0 if otherwise Monitoring=1: If statement on regular assessment of internal control is found Internal audit=1: If assessment of internal control of organization's internal audit is found. The final measurement of the internal control structure variables is the sums of the total scores
Size	Measured by log total asset

REM: Real earnings management, ABCFO: Abnormal operating cash flow, IFRS: International Financial Reporting Standards

Table 3: Descriptive statistic data model REM

Description	Minimum	Maximum	Mean
REMCFO	−2,781.302	6,200.269	189,331.7
IFRS	0.220	0.650	0.4988
Cycles	1.00	5.000	2.1914
ICS	1.00	6.00	3.0286

Source: Processed secondary data (2016). IFRS: Adoption of International Financial Reporting Standards-based accounting standard, REM_CFO: Real earnings management measured with abnormal cashflow, AEM: Accruals earnings management, ICS: Internal control structure

Table 4: Description of internal control structure frequency

Sum of disclosure poin	Frequency (%)
1	49 (14)
2	91 (26)
3	80 (22.9)
4	69 (19.7)
5	53 (15.1)
6	8 (2.3)
7	0 (0)
total	350 (100)

Source: Processed secondary data, 2016. Description: ICS was scored from 1 to 7 items of disclosures. ICS: Internal control structure

structure). Of the seven CSI items, "limitation of internal control structure" and "special element of control activity" were rarely disclosed.

4.3.2. Classical assumption testing

Classical assumption testing for normality, autocorrelation, heteroscedascity, and multicollinearityhad been done and there were no violation.

4.3.3. Goodness of fit of regression model

REM regression model = $\gamma_0 + \gamma_1$ Standard + γ_2 ICS + γ_3 Cycles*SPI + γ_4 Size + e

REM = Real earning management, Standard = Accounting standard adoption by organization,

ICS = Internal control structure, and Size = Size of organization.

Empirical regression model developed in this study was adequately liable for testing the research hypotheses as it can be seen in Table 5 in significance column, which shows significant rate of 0.000 for three research models. The developed models explained variable variation of the IFRS adoption, management control structure moderating variable, and control variable. In addition, they also explained variation of REM of 20.47% for the proxy for REM_CFO of 9.89% for REM_DESC and 11.16% for REM_PROD. The REM with proxy of REM_CFO had the greatest explanatory power compared to REM_DESC and REM_PROD proxies.

5. DISCUSSION

Table 6 contains hypotheses testing and adjusted R^2 of model regression of CFO, discretionary expense and production cost (the proxies of REM). I find statistically significant evidence that IFRSs that adopted by the firm (IFRS) influence to REM in CFO, discretionary expense and production cost. The result of the interacted variabel (SPI_IFRS) have deference result for CFO, discretionary expense and production cost.

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Table 5: Goodness of fit of research model

Model	Adjusted R^2	F-test	Significance
Equation 1: REM_CFO=$\gamma_0+\gamma_1$Standard+γ_2ICS+γ_4Standard*ICS+γ_5Size+e	20.47%	23.4602	0.000
Equation 2: REM_DESC=$\gamma_0+\gamma_1$Standard+γ_2ICS+γ_4Standard*ICS+γ_5Size+e	9.89%	10.5781	0.000
Equation 3: REM_PROD=$\gamma_0+\gamma_1$Standard+γ_2ICS+γ_4Standard*ICS+γ_5Size+e	11.16%	11.5523	0.000

Source: Processed secondary data (2016), ICS: Internal control structure, REM: Real earnings management

Table 6: REM moderation model

Variable	$CF0_t/A_{t-1}$	$DISEXP_t/A_{t-1}$	$PROD_t/A_{t-1}$
Intercept	2.209130***	3.316735***	3.972660***
	(7.394806)	(11.60793)	(3.972660)
IFRS	1.514993***	1.546143***	1.594989***
	(3.499596)	(3.737534)	(3.658148)
SPI	0.128549***	0.062059**	1.103307**
	(3.645518)	(1.841711)	(2.908810)
SPI_IFRS	−0.10254**	−0.010656	−0.024161
	(2.162100)	(0.235319)	(0.506241)
LOGASET	0.258748***	0.121510**	0.133076**
	(7.254561)	(3.565126)	(3.704514)
Adjusted R^2	0.204723	0.098918	0.111554

**Significant at the level 5% and ***Significant ata the 1% level. REM: Real earnings management, IFRS: International Financial Reporting Standards

In general, research model of abnormal cashflow (CFO), abnormal discretionary expense (REM_BYDESC) and abnormal product cost (REM_BYPROD) have deference result. The coefficient of determination in linear regression calculated by squaring the correlation coefficient (R). The adjusted R^2 model CFO have value 20.47%, its means the ability of independent variables in explaining the variance of the dependent variable is equal to 20.47%. Adjusted R^2 of the CFO model is greater than REM_DESC (9.89%) and REM_BYPROD (11.16%), it means the cability of IFRS adoption dan size to explained the real earnings manajemen CFO larger than REM_DESC and REM_PROD.

Hypotheses testing resulted in Table 6. The adoption of IFRS had a positive effect on the REM. The result shows a significant level of 0.01 for REM_CFO, REM_BYDESC and REM_BYPROD. The result also means that H_1 are remarkably robust.

Scott (1997) explains that IFRS focused on the use of management judgement and transparency process by considering the management to be more intensive in disclosing organization's discretion that can increase the positive value of the outsiders. The weakness of principal based is that it needs in-depth reasoning, judgement, and comprehension of the regulation readers to apply in practice. Whereas, the advantage is to make possible the managers to select accounting treatment, that reflects transaction or economic incidence. This possibility gives opportunity to the management to use its judgement for accounting treatment. Therefore, it can give space to the organization that adopts IFRS to perform earnings management.

The results supported the study done by Capkun et al. (2013), who found that flexibility in the IAS/IFRS standards would result in greater earnings management. Lyu et al. (2014) in their study in China found that REM activity increased after the IFRS adoption, proving that the adoption positively correlated to the REM.

The interaction effect of GCG measured with internal control structure to positive effect of the IFRS adoption on the REM have a defferenct result. For REM CFO, the coefficient of SPI_IFRS have a significant level of 5%, but for REM_BYDESC and REM_BYPROD weren't significant. The REM with abnormal cashflow proxy resulted in weaking positive effect of the ICS on the effect of IFRS on REM. Nevertheless, concerning the abnormal production cost and abnormal discretional cost proxies, the ICS could not moderate the effect of IFRS adoption on REM.

Agency theory in management' discretion context contends that corporate governance mechanism in an organization will decrease earnings management due to IFRS adoption in the organization in two ways: Risk management and monitoring mechanism. Dealing with internal control system, these two ways were relevant as proven by the current study althoungh that aren't proved in REM_BYDESC and REM_BYPROD.

6. CONCLUSIONS

This study had managed to prove that the adoption of the IFRS had a positive effect on the REM. It also proved that GCG proxied by ICS weakened the positive effect of the IFRS adoption on the REM.

6.1. Implications

a. Auditors can use these results to make a consideration in reviewing financial statement in order to make more judgement of the management in adopting the IFRSs
b. Accounting standard regulators can use the results to consider in more detailed possibilities of the standard statements that potentially create manipulative gaps for the financial statement makers
c. Companies are provided with evidence that their internal control system can be a tool for controlling the management's opportunistic behavior.

6.2. Limitations

1. The measurement of the IFRS with the ratio of poin of standards disclosed by the organization divided by number of standard items issued by the regulators or professionals. This ratio has not fully reflect the conditions of application of the standards because of the small ratio does not mean the company does not comply with the regulators but because it is only the standards used by the company

2. The measurement of the ICS variable with the number items of disclosure by the organization had not completely measured to what extent the conditions of the organization's ICS (good or bad).

7. FUTURE RESEARCH AGENDA

The future studies are expected to use the measurement of the IFRS variable that is more capable of defining obedience of the organization in adopting the accounting standard determined by the profession and using the measurement of the ICS adoption that covers broader aspects in measuring the organization's ICS adoption in practice.

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